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January 31, 2001

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**FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY**

Hand Delivery

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 12th Street, S.W.
Washington, D.C. 20554

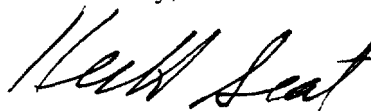
Re: EX PARTE -- CC Docket No. 01-9: Application of Verizon Pursuant to
Section 271 of the Telecommunications Act of 1996 to Provide InterLATA
Services in Massachusetts

Dear Ms. Salas:

On January 30, 2001, Michael Pelcovits, Rob Lopardo, Vijetha Huffman, Mark Schneider, Elena Ebroder-Feldman and I on behalf of WorldCom, Inc. met with Eric Einhorn, Daniel Shiman, Praveen Goyal, Ben Childers, Christopher Libertelli, Julie Veach, Shari Keiser, Rachel DuFault, Rhonda Lien, Richard Kwiatkowski, Noel Uri, Carol Canteen and Jennifer McKee of the Common Carrier Bureau to discuss Verizon's refiled section 271 application to provide long distance service in Massachusetts. Specifically, we discussed concerns with UNE rates in Massachusetts, as well as DSL, performance metrics and OSS issues, as set forth in the enclosed materials that were provided at the meeting.

In accordance with section 1.1206 of the Commission's rules, 47 C.F.R. § 1.1206, an original and one copy of this Notice are being filed with your office. In addition, a copy of this Notice and enclosure is being transmitted by fax to Ann Berkowitz at Verizon as requested in the Commission's Public Notice.

Sincerely,



Keith L. Seat

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A B C D E

Enclosure

cc (w/o encls.): Eric Einhorn, Daniel Shiman, Praveen Goyal, Jennifer McKee, Ben Childers,
Christopher Libertelli, Julie Veach, Shari Keiser, Rachel DuFault, Rhonda Lien,
Richard Kwiatkowski, Noel Uri, Carol Canteen
cc (w/encls.): Susan Pie, Josh Walls, Cathy Carpino, Ann Berkowitz (by fax)

Verizon's Section 271 Application for Massachusetts Should Be Denied:

**Verizon's Above-Cost Pricing and Other Barriers
Prevent Robust Local Exchange Telephone
Competition in Massachusetts**

January 30, 2001

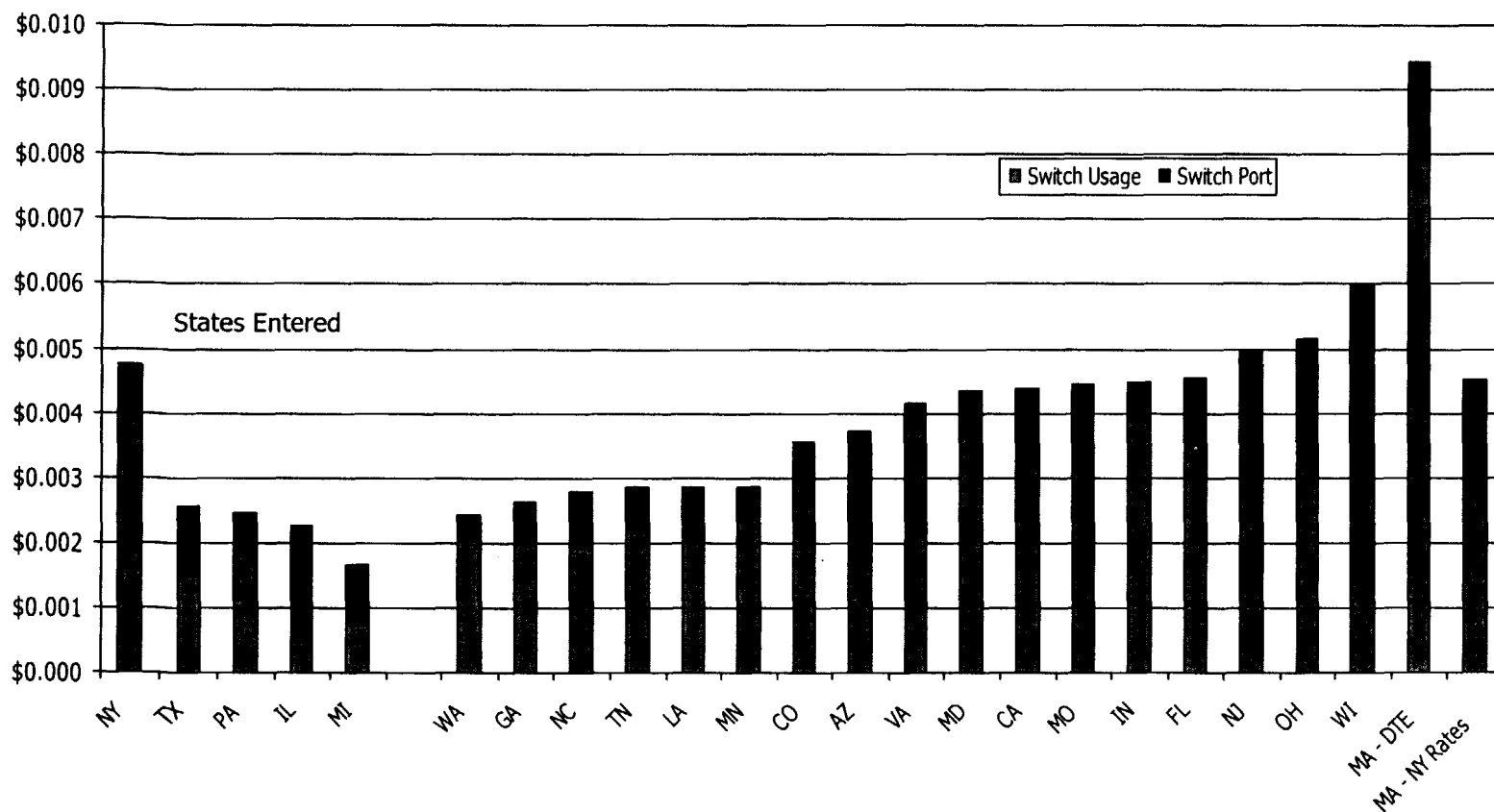
Above-Cost Pricing Prevents Robust Local Residential UNE-P Competition

UNE-P Is Key to Widespread Local Residential Competition

- UNE-Platform necessary for ubiquitous residential competition
 - Cable/other facilities have limited reach, limited build-out
 - Non-UNE-P expansion slow, capital requirements high
 - Resale discount better than most states, but still a loser
- Where UNE-P pricing is minimally acceptable (and other barriers being lifted), WorldCom will enter:
 - New York entered 12/98
 - Texas entered 4/00
 - Pennsylvania entered 8/00
 - Michigan and Illinois entered 12/00, despite BOC's serious Operations Support Systems (OSS) issues
- Above-cost prices prevent local entry and robust competition in many states

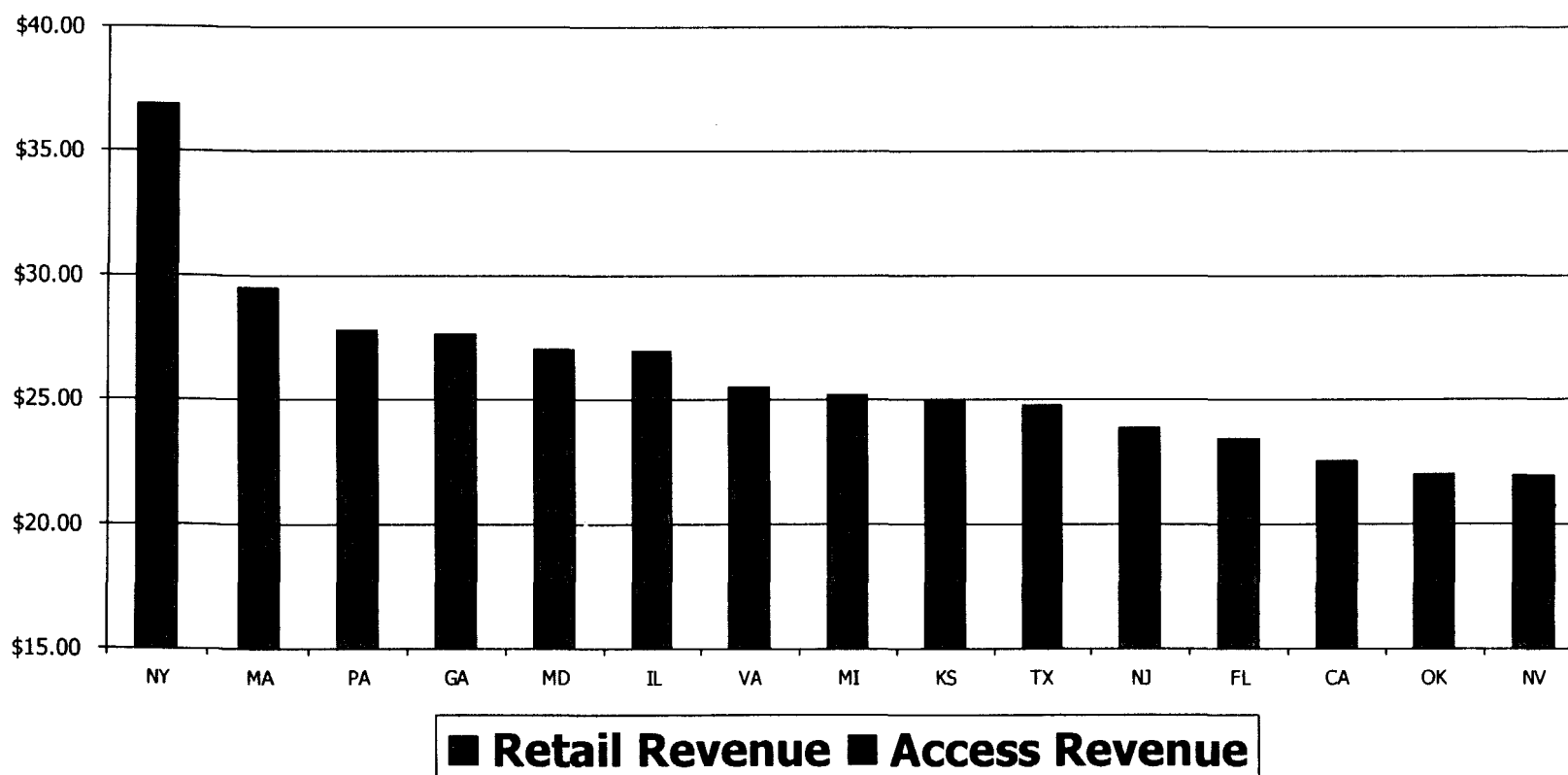
Non-Cost-Based Switching Rates Improperly Prevent or Restrain Local Competition

UNE Costs Are Too High for Competitive Entry in Many States: Switching Rates in Largest States



- Rates per minute in BOC regions of the largest states have been calculated by dividing the estimated monthly switching, transport and port costs per line by total local and long distance minutes (originating & terminating).
- The port charge in IL includes unlimited switching at no extra charge; the effective switching rate is the result of other elements, including transport.

Local Residential Revenue by State



- Monthly BOC residential retail rates for dominant product (to extent known) in states for which information is available.
- Includes Access Revenue from LD/LATA minutes; feature is Call Waiting for all states except TX (which is Call Waiting and Caller ID)
- FL rate is for unlimited product in the Miami area (highest in state), plus an additional \$1.25 for ECS calling.

Considerations Previously Permitting Acceptance of NY Rates Are Not Present Here

- Massachusetts regulatory environment unlike NY
 - Massachusetts Commission (DTE) refused to open up pricing docket to adjust rates prior to pending section 271
 - DTE defends unreasonable 1996 rates as TELRIC
 - DTE claims effect on competition is irrelevant
- NY Commission (PSC) acknowledged that switching rates are flawed due to Verizon misrepresentations
 - PSC relied on existence of adequate margin to permit competition in NY pending adjustment of flawed rates
 - Pricing case will soon correct rates in NY
 - True-up will occur after rates corrected
- Switching rates that were found reasonable in New York where they enabled competition are not reasonable in Massachusetts where they do not

More Recent and Better Pricing Data than New York's Are Now Available

- Unreasonable to rely on flawed 1997 NY rates when more recent and better pricing data now available
 - Costs of switching have declined since MA and NY cost studies
- Recent Pennsylvania proceedings adopted switching rates far below rates in NY
 - Upheld in state court appeal in October 2000
- Recent FCC switching cost estimate not available when NY decided switching costs
 - April 1997 NY estimate: average total cost \$193 per line
 - Data from New York Telephone depreciation studies, covers 33 switches purchased in 1993 and 1994
 - Nov. 1999 FCC estimate: average total cost \$117 per line
 - Data from depreciation studies (946 observations) and Rural Utilities Service (139 observations), covers switches purchased from 1989 - 1996
 - Found fixed and per line costs

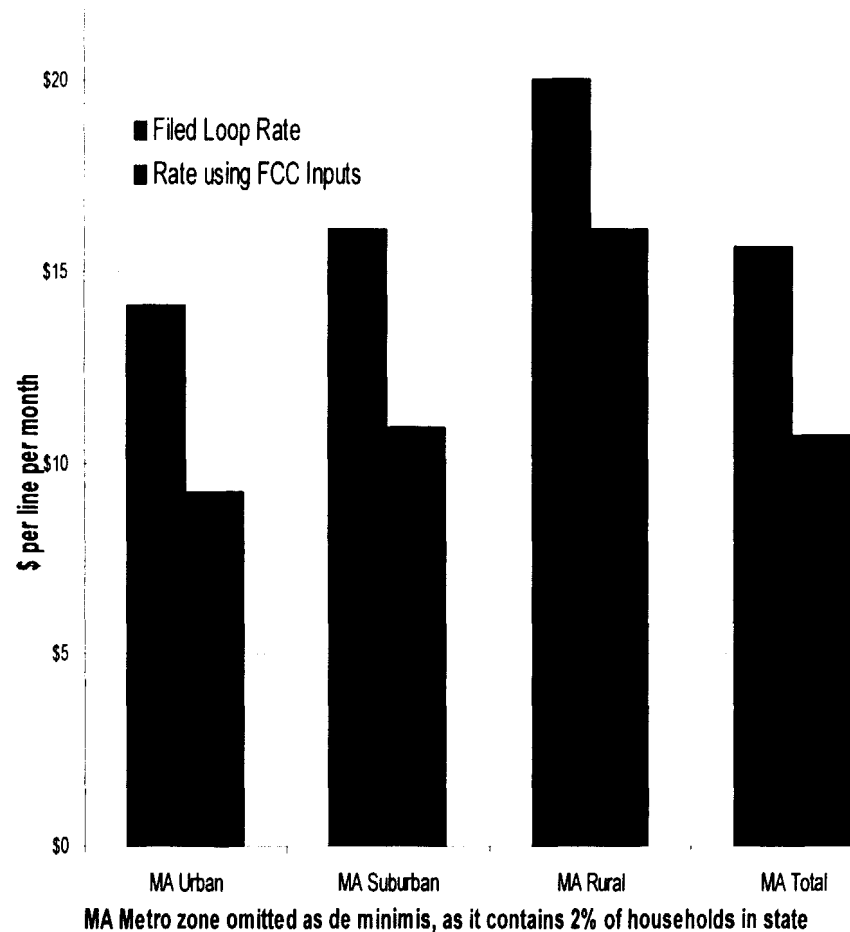
Non-Cost-Based Loop Rates Prevent Robust Local Competition

Verizon's Loop Prices Must Be Reduced Substantially to Be Cost-Based

- Verizon resisted providing electronic spreadsheet of its loop cost model
 - Formulas in electronic version required to analyze model by creating Workpaper Part A, which was attached to Verizon's February 14, 1997 compliance filing at the Massachusetts Commission (DTE)
- Analysis of the model reveals numerous input issues, requiring reduction of loop prices by about one-third to be cost-based

Loop Rate Is About \$5/Month Too High

- Verizon's loop cost study (adopted by MA DTE) made numerous errors in:
 - Utilization Factors
 - Pole Inputs
 - Cost of NIDs
 - Cost of Cable
 - Cost of Capital
- Using inputs from FCC's Synthesis Model reduces loop rate to \$10.71 instead of Verizon's \$15.66



Comparison of Massachusetts Pricing with Other States Reveals Problems Preventing Robust Local Competition

Comparison of Massachusetts UNE-P Pricing with States WorldCom Has Entered

	<u>MA--DTE</u>	<u>MA--"NY</u>	<u>NY</u>	<u>TX</u>	<u>PA</u>	<u>IL</u>	<u>MI</u>
Households (000)	2,376	2,376	5,973	5,117	3,398	3,574	3,050
Zone Density	100%	100%	100%	100%	100%	100%	100%
<u>Revenue:</u>							
Local	\$25.14	\$25.14	\$32.74	\$19.90	\$22.42	\$25.23	\$23.70
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.13</u>	<u>\$4.90</u>	<u>\$5.38</u>	<u>\$1.73</u>	<u>\$1.48</u>
Total Revenue (1)	\$29.48	\$29.48	\$36.87	\$24.80	\$27.80	\$26.96	\$25.18
<u>Telco:</u>							
Unbundled switch port	\$4.49	\$2.00	\$2.50	\$2.90	\$1.90	\$5.01	\$2.53
Unbundled loop	\$15.66	\$15.66	\$14.81	\$14.15	\$14.01	\$9.81	\$10.15
UNE switching & transport (2)	<u>\$21.68</u>	<u>\$10.50</u>	<u>\$10.60</u>	<u>\$4.17</u>	<u>\$5.02</u>	<u>\$1.25</u>	<u>\$1.97</u>
Total Telco (3)	\$41.83	\$28.16	\$27.91	\$21.22	\$20.93	\$16.07	\$14.65
Gross Margin (line/month)	(\$12.35)	\$1.32	\$8.96	\$3.58	\$6.87	\$10.89	\$10.53

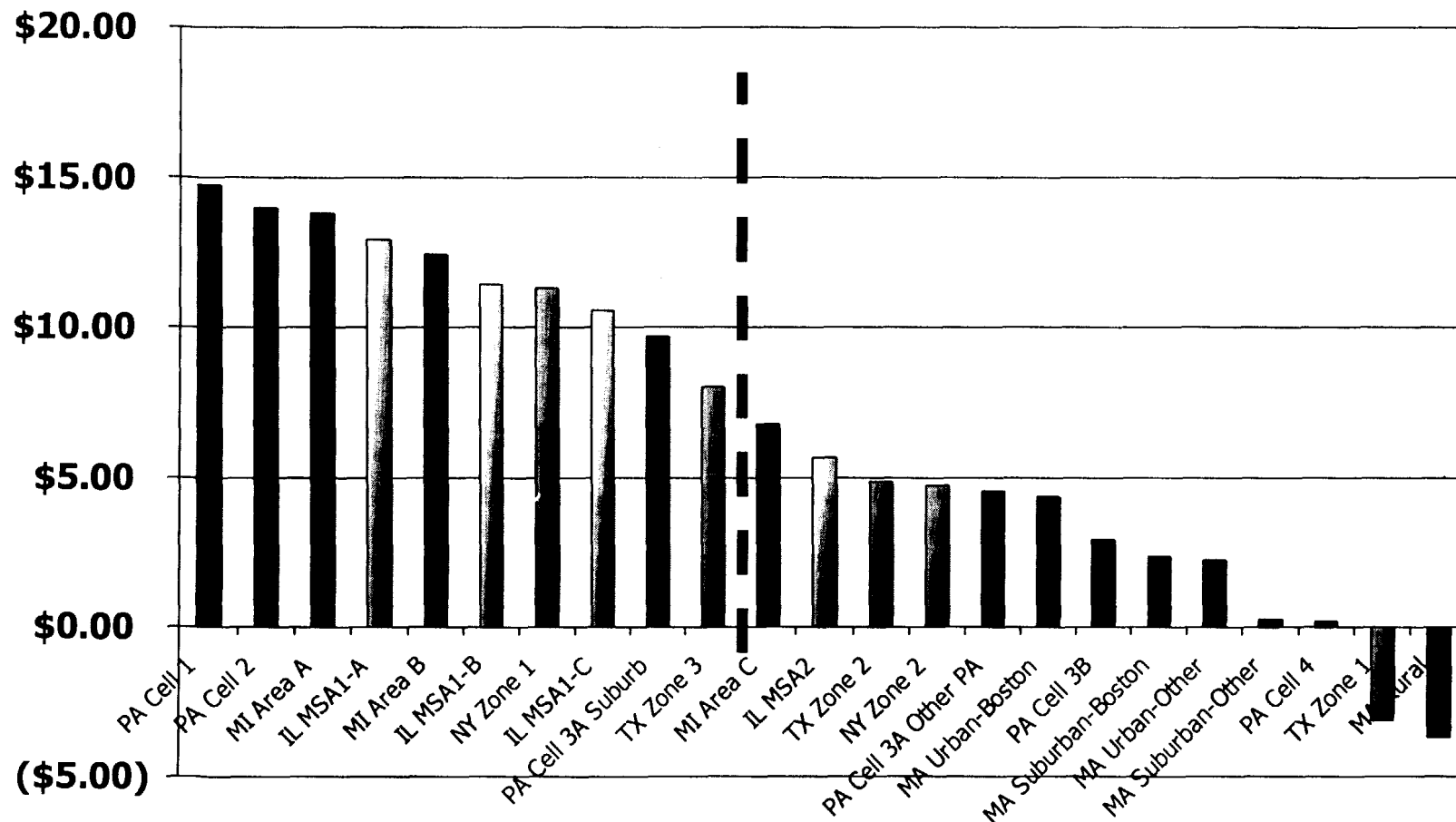
1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (1.5 in TX), and SLC.

2 Reflects MA DTE's Sept. 7, 2000 order which reduced charges on intra-End Office calls, slight revision in call-flow methodology, and NY switching rates.

3 Does not include Non-Recurring Charges (NRCs).

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Gross Margin by Zone in Massachusetts and Five States WorldCom Has Entered



MA Metro zone omitted as de minimis, as it contains only 2% of households in state.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

OSS and Other Non-Price Concerns

OSS: Verizon Has Failed to Prove Readiness

- Verizon still has very little OSS experience
 - Only about 6000 residential UNE-P orders in total
 - Only four individual orders using EDI
- Verizon can't rely on New York experience
 - Different legacy systems, as well as some differences in business rules and products
 - Verizon has not provided detailed evidence of "sameness" but has acknowledged some differences
 - No independent verification of "sameness"
 - Problems in NY
- Third party testing by KPMG not adequate, but revealed problems
 - Didn't require root cause analysis
 - Didn't retest performance using military style test

OSS Problems: Verizon's Systems Must Be Improved

- Above-cost pricing has prevented commercial use and extensive testing of Verizon's OSS, but problems exist
- WorldCom's experience in NY and PA reveals key problems with Verizon OSS
 - Missing notifiers: ongoing NY problem also being seen in PA
 - Documentation problems create testing problems
- Verizon is not providing necessary technical assistance
 - Help desks are not helpful, and repeated escalation required
 - Change management not adequate, Verizon not forthcoming about ExpressTrak
- Many other problems exist
 - Verizon uses excessive manual processing (poor flow-through)
 - Loss notification deficient, etc.

DSL Improvements Needed to Avoid Verizon Extending Its Bottleneck Control

- Line splitting (with CLEC providing voice) critical, and FCC now has unambiguous requirements
 - Verizon now raising issues about whether UNE-P is “intact”
- Unclear whether Verizon can or will support line splitting
 - Verizon has failed to provide even “paper promises” on line splitting
 - Verizon does not point to commercial experience or third party testing to show it can provision line splitting orders
 - Verizon does not have OSS in place for line splitting or to permit migration from line sharing to line splitting

Performance Remedies Are Inadequate to Prevent Backsliding

- Performance remedies are alternative to contract damages, rather than supplemental as in NY
- Lower cap on penalties in MA than NY (36% v. 44% of profits)
 - Cap set at same proportion as NY, but increase in NY cap due to missing notifier metrics not matched
- Verizon cannot rely on promises of future changes to Performance Assurance Plan (PAP)
 - Remedies for DSL and line sharing undecided; may dilute PAP
 - EDI notifier measures added in NY not included here
- Performance remedies will not be adequate in practice
 - Verizon can delay through “waivers”; no time limit; vague

Appendices

Massachusetts - Verizon (by zone)

	<u>MA-STATE</u>	<u>METRO</u>	<u>URBAN BOSTON</u>	<u>URBAN OTHER</u>	<u>SUBURBAN BOSTON</u>	<u>SUBURBAN OTHER</u>	<u>RURAL</u>
Households (000)	2,376	48	517	148	120	1,377	166
Zone Density	100%	2%	22%	6%	5%	58%	7%
<u>Revenue:</u>							
Local	\$25.14	\$26.65	\$26.65	\$24.53	\$26.65	\$24.53	\$24.53
Access	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>	<u>\$4.34</u>
Total Revenue (1)	\$29.48	\$30.99	\$30.99	\$28.87	\$30.99	\$28.87	\$28.87
<u>Telco:</u>							
Unbundled switch port	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00	\$2.00
Unbundled loop	\$15.66	\$7.54	\$14.11	\$14.11	\$16.12	\$16.12	\$20.04
UNE switching & transport (2)	<u>\$10.50</u>	<u>\$10.41</u>	<u>\$10.50</u>	<u>\$10.50</u>	<u>\$10.50</u>	<u>\$10.50</u>	<u>\$10.50</u>
Total Telco (3)	\$28.16	\$19.95	\$26.61	\$26.61	\$28.62	\$28.62	\$32.54
Gross Margin	\$1.32	\$11.04	\$4.38	\$2.26	\$2.37	\$0.25	(\$3.67)

1 BOC retail rates, without discount. Includes line fee, usage, touch tone, 1 feature (call waiting @ \$2.84) and SLC. Boston Area revenues shown more precisely in Urban and Suburban zones.

2 Reflects switching and transport costs based on NY switching rates.

3 Does not include \$0.19 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

New York - Verizon (by zone)

	<u>State Average</u>	<u>Urban Zone 1</u>	→ <u>Rural Zone 2</u>
Households (000)	5,973	3,846	2,128
Distribution	100%	64%	36%
<u>Revenue:</u>			
Local	\$32.74	\$32.64	\$32.91
Access	\$4.13	\$4.13	\$4.13
Total Revenue (1)	\$36.87	\$36.77	\$37.04
<u>Telco:</u>			
Unbundled switch port	\$2.50	\$2.50	\$2.50
Unbundled loop	\$14.81	\$12.36	\$19.24
UNE switching & transport	\$10.60	\$10.60	\$10.60
Total Telco (2)	\$27.91	\$25.46	\$32.34
Gross Margin	\$8.96	\$11.31	\$4.70

1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (Call Waiting @ \$5.19), and SLC.

Reflects message rate product.

2 Does not include \$3.73 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Texas - SBC (by zone)

	<u>State Average</u>	<u>Rural Zone 1</u>	<u>Zone 2</u>	<u>Urban Zone 3</u>
Households (000)	5,117	1,061	2,398	1,657
Distribution	100%	21%	47%	32%
<u>Revenue:</u>				
Local	\$19.90	\$18.66	\$19.67	\$21.03
Access	\$4.90	\$4.90	\$4.90	\$4.90
Total Revenue (1)	\$24.80	\$23.56	\$24.57	\$25.93
<u>Telco:</u>				
Unbundled switch port	\$2.90	\$3.25	\$2.15	\$1.94
Unbundled loop	\$14.15	\$18.98	\$13.65	\$12.14
UNE switching & transport	\$4.17	\$4.44	\$3.91	\$3.85
Total Telco (2)	\$21.22	\$26.67	\$19.71	\$17.93
Gross Margin	\$3.58	(\$3.12)	\$4.86	\$8.00

1 BOC retail rates, without discount. Includes line fee, usage, 1.5 features (100% of Call Waiting @ \$2.80, 50% of Caller ID @ \$6.15 above average LD and SLC. Reflects unlimited local product for Texas.

2 Does not include \$2.56 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Pennsylvania - Verizon (by zone)

		Urban					Rural
	State Average	Cell 1	Cell 2	Cell 3 "A" Suburb	Cell 3 "A" Other PA	Cell 3 "B"	Cell 4
Households (000)	3,398	226	618	714	650	184	1,007
Distribution	100%	7%	18%	21%	19%	5%	30%
Revenue:							
Local	\$22.42	\$26.53	\$26.53	\$25.23	\$20.10	\$18.44	\$19.21
Access	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38	\$5.38
Total Revenue (1)	\$27.80	\$31.91	\$31.91	\$30.61	\$25.48	\$23.82	\$24.59
Telco:							
Unbundled switch port	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90	\$1.90
Unbundled loop (2)	\$14.01	\$10.25	\$11.00	\$14.00	\$14.00	\$14.00	\$17.50
UNE switching & transport	\$5.02	\$5.02	\$5.02	\$5.02	\$5.02	\$5.02	\$5.02
Total Telco (3)	\$20.93	\$17.17	\$17.92	\$20.92	\$20.92	\$20.92	\$24.42
Gross Margin	\$6.87	\$14.74	\$13.99	\$9.69	\$4.56	\$2.90	\$0.17

1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (Call Waiting @ \$3.62), and SLC. Reflects Unlimited Band 1 product.

2 The average loop rate corresponds to the tariffed rate effective 9/30/2000.

3 Does not include \$1.06 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Illinois - SBC (by zone)

		Urban → Rural			
	<u>State Average</u>	<u>MSA1- A</u>	<u>MSA1- B</u>	<u>MSA1- C</u>	<u>MSA2</u>
Households (000)	3,574	99	1,109	2,320	46
Distribution	100%	3%	31%	65%	1%
<u>Revenue:</u>					
Local	\$25.23	\$20.09	\$23.07	\$26.54	\$21.59
Access	\$1.73	\$1.73	\$1.73	\$1.73	\$1.73
Total Revenue (1)	\$26.96	\$21.82	\$24.80	\$28.27	\$23.32
<u>Telco:</u>					
Unbundled switch port	\$5.01	\$5.01	\$5.01	\$5.01	\$5.01
Unbundled loop	\$9.81	\$2.59	\$7.07	\$11.40	\$11.40
UNE switching & transport	\$1.25	\$1.25	\$1.25	\$1.25	\$1.25
Total Telco (2)	\$16.07	\$8.85	\$13.33	\$17.66	\$17.66
Gross Margin	\$10.89	\$12.97	\$11.47	\$10.61	\$5.66

1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (Call Waiting @ \$2.25), and SLC.

2 Does not include \$29.00 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)

Michigan - SBC (by zone)

		Urban	→ Rural	
	<u>State Average</u>	<u>Area A</u>	<u>Area B</u>	<u>Area C</u>
Households (000)	3,050	634	1,233	1,183
Distribution	100%	21%	40%	39%
<u>Revenue:</u>				
Local	\$23.70	\$25.31	\$24.20	\$22.32
Access	\$1.48	\$1.48	\$1.48	\$1.48
Total Revenue (1)	\$25.18	\$26.79	\$25.68	\$23.80
<u>Telco:</u>				
Unbundled switch port	\$2.53	\$2.53	\$2.53	\$2.53
Unbundled loop	\$10.15	\$8.47	\$8.73	\$12.54
UNE switching & transport	\$1.97	\$1.97	\$1.97	\$1.97
Total Telco (2)	\$14.65	\$12.97	\$13.23	\$17.04
Gross Margin	\$10.53	\$13.82	\$12.45	\$6.76

1 BOC retail rates, without discount. Includes line fee, usage, 1 feature (Call Waiting @ \$5.00), and SLC.

2 Does not include \$0.35 NRC.

Note: Analysis does not include WorldCom or other CLEC internal costs (e.g., billing, customer service, sales/acquisition, bad debt)